

VZCZCXYZ0000
PP RUEHWEB

DE RUEHSN #0480/01 1092235
ZNY CCCCC ZZH
P 182235Z APR 08
FM AMEMBASSY SAN SALVADOR
TO RUEHC/SECSTATE WASHDC PRIORITY 9355
INFO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE

C O N F I D E N T I A L SAN SALVADOR 000480

SIPDIS

SIPDIS

E.O. 12958: DECL: 04/16/2018

TAGS: ECON ENRG PGOV ES

SUBJECT: EX-FINANCE MINISTER CRITIQUES SACA GOVERNMENT,
STATE OF ECONOMY

Classified By: CHARGE D'AFFAIRES MICHAEL A. BUTLER, REASONS 1.4(B,D)

¶1. (C) SUMMARY. According to former Finance Minister Manuel Hinds, El Salvador's economic growth has been close to 6% per year over the last several years, not the 2-4 % officially reported. The Saca Administration, which Hinds calls the "most corrupt" in El Salvador's history, has intentionally been understating growth for political motives.

Fearing the current government's "cheap populism," Hinds speculated that ARENA candidate Rodrigo Avila's high negatives will make an ARENA victory difficult and stated that, if Mauricio Funes actually controls the FMLN, a "centrist" FMLN victory would be "one of the best things to ever happen to the country." Hinds also discussed problems in energy and mining, and their negative effects on El Salvador's investment climate. END SUMMARY.

¶2. (SBU) EconCouns and Econoff discussed the state of the economy, the current government, energy issues, and the 2009 elections with former Finance Minister Manuel Enrique Hinds on April 16. Hinds, a two-time Minister of Finance (1979-1980, 1995-1999), now works as a private sector consultant and political commentator.

ECONOMIC GROWTH UNDERSTATED

¶3. (SBU) In Hinds view, official statistics significantly understate El Salvador's economic growth over the past decade. Hinds believes there are two problems with current measurements. First, the indices for measuring economic growth are based on an economic census completed in 1990. Certain sectors in the modern economy, like fast food and services, are either missing or significantly underweighted. Hinds estimated that, using a more realistic measure of activity, growth would have been about 6% per year over the last several years. Likewise, the latest population census (which are public though still not official) indicated that El Salvador has about a million fewer people than previously estimated. The lower population figure would, he said, boost per capita GDP growth considerably even under the old index.

¶4. (C) Hinds added that the government has calculated growth figures based on a more accurate economic survey, but the administration won't release the numbers for political reasons. He stated that forme Technical Secretary (Chief of Staff to the President) Eduardo Zablah told him that better growthfigures would have imperiled El Salvador's chances or receiving a Millennium Challenge Compact. Siilarly, if the government used the new, lower poulation estimate, El Salvador's crime statistics would look even worse.

¶5. (C) In the short-term, Hinds thought the biggest economic risk was inflation, especially food prices. Price increases in El Salvador are being driven by external factors, like world commodity prices and problems in the U.S. economy.

Hinds expected prices to remain high for at least two to five years, and said there was little anyone could do about it. He expressed concern over government statements about becoming more involved in the agricultural sector, including buying farmland in other countries, and feared that this could lead to export controls and a market-distorting situation "similar to Argentina."

POLITICAL PARTIES HEADED IN VERY DIFFERENT DIRECTIONS

¶16. (C) According to Hinds, the Saca Administration was now the "most corrupt" in the history of El Salvador, "surpassing even the Duarte Administration in the 1980s." The government was now adopting "cheap populism" in an effort to pander to voters and was actively undoing the "good work" of the three previous ARENA administrations. Their current, short-sighted policies were "set to explode" soon after the new President takes office in June 2009. Hinds particularly faulted the government's subsidies for the transportation sector, which "aren't even popular." He estimated that the government was spending about \$400 million on subsidies, money which had been diverted from longer term infrastructure investment.

¶17. (C) Turning to the election, Hinds said that the FMLN now appeared to be "the centrist party," while ARENA was trying to be the "populist" party. He stated that an FMLN victory, "if Mauricio Funes actually controls the party," would be "the best thing to ever happen to the country," since it would enshrine pro-investment policies "like what happened in Chile." He was concerned, however, that he did not see a "coalition for Funes within the FMLN." If Funes made statements against Castro and Chavez, who are "not popular in El Salvador," it would be a sign that he was in

charge, but that hadn't happened yet. (Comment. However, Funes may be biding his time while he gathers support for his "Friends of Mauricio" movement. He has still not become a member of the FMLN party and could threaten to withdraw his name from the FMLN ticket at the last minute, leaving the FMLN high and dry if the old guard FMLN does not support his policies and Funes free to run under the banner of another party. End Comment.)

¶18. (C) Hinds described ARENA candidate Rodrigo Avila, with whom he had worked in the 1990s, as "honest and a nice guy" but by no means the best candidate that ARENA could have chosen. He noted an "El Diario de Hoy" poll comparing Funes and Avila on 15 different criteria. The only measure that Avila, the former Chief of Police, came out ahead of Funes was on crime. Even on the security criterion, Hinds had his doubts given the poor security situation in the country. Hinds said that President Saca was now "so vain he thinks he could win any election" by making it about him. Hinds pointed, however, to another part of the "El Diario de Hoy," poll where 50.1 percent of respondents said they would never vote for Avila. In the elections of Calderon Sol and Saca, Hinds said, the ARENA candidates at their lowest rankings had only a 32 percent "no vote" and both won with about 68 percent. Hinds asserts that, using that same correlation, Avila would end up with only 49.9% of the vote.

ENERGY CRISIS LOOMING

¶19. (C) Discussing the energy sector, Hinds predicted a power crisis soon after June 2009. Electricity demand continues to rise, but there has been no significant investment in new power generation facilities, which take years to build. Hinds complained of legal impediments encountered by one of his consulting clients Cutuco Energy, which plans to supply natural gas and generate electricity for the Central American regional market. The hydrocarbons law, however, does not allow for the offloading of natural gas that is only 99 and not 100 percent pure. What should have been a simple change in the law, he said, had now dragged on for four years. The

government, he added, was also concerned about Cutuco getting a monopoly in gas transmission, an issue "that countless other countries have already worked out." He commented that problems faced by an Italian firm trying enforce its contractual provisions for majority ownership of a joint venture geothermal project with the state hydroelectricity company, CEL, didn't just affect power generation but also threatened El Salvador's investment climate.

¶10. (C) Hinds dismissed recent government statements about developing possible offshore oil and gas reserves. He said those supposed resources "have been discussed since (he) was a child," noting that the current negotiations are being conducted by Saca's family and friends (Note. CEL is the official entity responsible for those negotiations and one of the parties involved in the latest venture is the son of the President of CEL. This has raised obvious conflict of issues problems, which have been raised with CEL's Board. End note.)

MINING - GOLDEN OPPORTUNITY GOING TO WASTE

¶11. (C) Hinds had also worked as a consultant to the mining industry, and he authored a study rebutting opponents' claims that mines were only found in unpopulated areas, citing Santiago, Chile and some cities in Canada as counter-examples. His report also said the benefits of mining outweighed the environmental risks, which he said was minimal due to the high environmental standards his client Pacific Rim Mining planned to use. Hinds stated that Pacific Rim Mining had invested about \$25 million and "followed the rules" for both exploration and exploitation, only to be denied permits. Again, this would also damage prospects for future investment. He added that it was a mistake for the government to block gold mining in general, since "gold is the best hedge against oil prices" and "we're wasting our resources."

COMMENT

¶12. (C) Hinds is a respected former finance minister, now out of politics, and a comparatively unbiased observer. His comments reflect his discontent with the Saca Administration and Avila's candidacy. A sentiment that we hear is shared by many others within ARENA.

BUTLER